

59th EDC autumn conference/partner assembly on 07th - 08th November 2019 in Dresden/Germany

Minutes to the General Meeting of the EDC | European Dealer Council Volkswagen/Audi e.V.

November 07th, 2019 at the Gläserne Manufaktur | Lennéstraße 1 | Dresden D-01069, Germany

Thursday, 07th November 2019 Day 1:

A. Internal part (without representatives, manufacturers & NSCs/importers) Welcome and report of the EDC President Dr. Matti Pörhö:

The president, Dr. Matti Pörhö, opened the general meeting at 09:00 a.m. as the chairman of the meeting and welcomed the representatives of the individual members as national interest representatives according to § 2 of the statutes.

The President delivered his opening address to the General Assembly and its representatives from 21 Member Countries. He welcomed all participants. The President looked back on the hard but fruitful work of the EDC and the working groups over the past six months and thanked all participants for their commitment.

ITEM 1: The President welcomed the representatives of the Volkswagen/Audi dealer associations from 21 countries and noted that the General Meeting had been convened in accordance with § 4 of the Articles of Association in due form and time and that the founding members had also received the agenda.

ITEM 2: The President then formally entered the agenda. He also mentioned the status of the cooperation with the manufacturers, discussed the next steps and the planned activities, e.g. the continuation of the working groups, whose status he noted in detail, further conferences like the special conference etc.

The presidium asked team Pontus Lövrup, Ryszard Hada, Alvaro Curiel, and Dorien Michels to think about new themes for our future activities. We proposed them to consider following topics; competitiveness, profitability, new activities for dealers, ideas for working groups etc. They're going to share their thoughts with us. We will evaluate the work this morning. I look forward to the presentations and discussion.

The president reported of the meeting with Alain Favey from Skoda. Skoda is not willing to cooperate with the EDC, they don't see any advantages to spend any time and efforts. Pontus Lovrup stated that we should tell Skoda in a friendly way, what we expect from them. Seat is actually out of discussion. The President supposed installing so-called sub-working group. Finn Kjaergaard comments that we need a good expertise and a large assist of the EDC countries. After that, no further speeches were requested and no motions were submitted, so that the President could call up the next item on the agenda, namely the management report, represented by Martin Kuhn. In the following Steffen Hahn reported in function of the treasurer. He explained the status of the finances at the time of 30.09.2019 and explained in detail the economic report for the year 2018, which also contained the corresponding revenues, expenditures, allowances etc. When further requests to speak and motions were not desired, the President thanked the Chairman and called for the next item on the agenda the approval of the budget 2020, result: no dissenting votes.

ITEM 3: The President then represented his proposal for statements, thereof resulting questions to the representatives and an open discussion for further topics and tasks for the EDC.

The President continued in his welcoming speech and particularly noted that the working groups between the EDC and the VW Group is running well. The co-operation with top management of factory is on normal level. He also stated that today's and tomorrow's program are made mainly on the conditions of EDC. The topic for this meeting is "Retail Business 2020+". That's also our strategic direction to build up the meeting today and tomorrow. The EDC presidium has addressed top management of manufacturer what are the points we like to hear. We have discussed the agenda with everyone personally. Let's hope we get also answers. Before the president started with representing his statements he invited Dirk Weddigen speaking about a so-called "ranking model" by the VW Group to qualify the performance of an investor. And Dirk Weddigen will speak to the Skoda DC of Germany on November 08th. He also heard on the soundtrack from the Group, that the future

dealers shall have all brands and finally these future dealers will remain at least 200 in Germany. This ranking model includes five prerequisites.

The president further explained that one thing is anyhow fact; Volkswagen Group is the only manufacturer who has a clear e-car strategy and the only car manufacturer who has new contracts with its dealers. They are also having great dialog with the dealers. Despite the very good e-car strategy we like to point out; not to put all the balls in one basket at the same time. We need low emission combustion engines and plug-in-hybrids as well. The model mix must meet demand. Consumers are not immediately ready to change their habits. The dealers are facing this fact in their daily life. And finally, there are many big questions; if the battery production adapts to the rapid change; if the very rapid technological development of the batteries is possible; if the good charging network is possible? These will be the questions to manufacturer.

The other big question is; does Volkswagen Group have a good social environment strategy? We believe that environmentally friendly motoring is more than just electric cars. We must have several environmentally friendly options. The trends to banish the cars in the cities, the always stricter emission requirements, social passions by young customers etc. are signs of present attitudes that need to be recognized quickly. It is not enough to simply monitor the situation. The two previous years have shown that the requirements of EU haven't been taken seriously, and we have not been fast enough. We know now that the factory has invested very late in tests for WLTP; we all have lost lots of sale in the delay. This is also true for the plug-in hybrids which we are two years late. We all know that the group has reached the podium position as the biggest car manufacturer of the world with good products. One can even ask; whether the present product development at the Group is in order?

Statements to the manufacturer:

The statements of Dr. Pörhö started that all e-cars should only be sold including service-packages over our network. The battery warranty should additionally be extended to 8 years. This might have a strong support, stated by Pontus Lövrup, to "fight" against leasing companies and if its included the customers need to come to our workshops. Dirk Weddigen will state this as a question to the manufacturer.

Second statement is to have one standard over all brands. We will have to protect our standards towards the independent workshops. Pontus Lövrup stated additionally that the importers might play an important role for the renewing of standards. We need to split the standards between sales and after sales, so that it can be easier to handle. Dirk Weddigen said, that it is too much work to talk with all the brands. We require one standard for all brands. Finn Kjaergaard will raise this question to VW Group (Dr. Dahlheim).

The third statement is about social environmental strategy. We told Martin Sander that they have to launch BEVs and PHEVs at first, because they will lose competition in fleets towards Mercedes, Volvo or Hyundai.

Fourth statement is that all brands should be available for one investor, so that we are capable selling each segment, also for after sales. For example Belgium has made the experience that their showrooms are separated but the workshop is one for all. Pontus Lövrup will ask this question.

Fifth statement: The presidium had a discussion with Dr. Dahlheim and Imelda Labbé about an independent chain in segment II/III in after sales and that we have more economy parts for sale. Imelda Labbé talked about a good system at PSA and that they are forerunner in that task. We astonished that if they think about implementing such a system, that it should only be with our dealer network. We have heard about systems like MIDAS, Fast-Fit, A.T.U etc. Matti Pörhö will state this question by himself.

The sixth statement will be asked by Ryszard Hada (Poland) about the development of the oil business. We have to be independent in choosing our oil supplier. We must have more flexibility and entrepreneurial independence for the future.

The last statement should be about Warranty Labour Rate. It should be at least the minimum 90% of the CLR. Therefore definitions have to be settled all over Europe. Finn Kjaergaard (Denmark) will ask the manufacturer about this topic.

The partner assembly also decided, that we will implement a task-force for cost reduction. Result: no dissenting votes

Presentation of Dorien Michels (DC Netherlands), Pontus Lovrup (DC Sweden), Ryszard Hada (DC Poland) and Alvaro Curiel Sanz (DC Spain). Please see also their presentation already sent by email.

1. **Dealer cost reduction vs. Margin reduction – Ryszard Hada:** No concrete solutions for cost reduction. There are more unproductive people than productive. He proposes that we do not accept the 1% margin reduction, if we were not shown the 10% cost reduction. VW AG informed the importers that they want to reduce the real, final margin not the theoretical margin by 1%. We need to dive in deeper to identify the cost-drivers.
2. **Electrification effects on dealers – oil, parts, work hours – Dorien Michels:** All MEB to include Service Package on fair terms. Transition of business to be met by lower costs for dealers. Also the off-line and indirect costs should be strongly reduced. We have to look at new Business models for dealers: Electric infrastructure – earning money with the loading proposition, not only to sell the car. There will also be Mobility concepts like travel cards, car sharing, additional services. They will have to find a neutral position for the dealers, because we will transfer from a dealer to a mobility provider.
3. **Fulfilling the new Contracts – complete guidelines, version infrastructure, New Business model participation of dealers need to be secured as we move along – Pontus Lovrup:** No complete set of guidelines, no set of regulations and a lot of staff that we have had. Different wordings between the brands. A lot of things where the EDC should safeguard, so that we really get the contracts which we were promised from the beginning.
4. **"We act as one"/"We stand with our dealers" – dealers in the front position of customers, on-line and off-line, in local mobility etc., as a basic principle – Alvaro Curiel Sanz.** We all have to read the contracts, especially the preamble again, because we have signed the contracts and it says many important things to us. To protect the business, to work with us, to stay with us – no other partners always with the dealer participation etc. The contract is our framework. The EDC has to work for the rest of the actions. We have to be the guardians of the dealers, of this contract. We act as one, we have to remember them, when they are trying to build an hidden agenda or a parallel way, that we have signed the preamble. If the idea of we act as one is broken our contracts are nothing worth. This is the most important issue to observe in any reaction of your importer in your country. We act as one is our promise and the only chance to talk to the manufacturer and to reclaim "you have broken our word and you have broken our common sense."
5. **All MEB and future products – Dorien Michels:** Dealers want to give their customers the choice to shop and to buy on-line or off-line. Dealers are the specialists in selling cars of the brands, therefore they should be able to sell all available products, so all products should be contract products by default.
6. **Sustainability – eliminate waste, minimize CO2 footprint (standards), WLTP, Paris Agreement etc. Dealers to grasp local opportunities, "green card" for local solutions that lower CO2 footprint – Pontus Lovrup.** We are the true part of the sustainability chain and in the system. We all are aware of spending money and we should be careful with resources. Replacing showroom concept or lightning system, this is also not sustainable. We have to focus on that, it is a waste of money of resources. These items have very little to do with sustainability and they have to see that. We should make them aware, that we check now, what is sustainable at what not. We should have our eyes on it. This should be a very important thing for the EDC. And this should also mean, that some of our standards we have today are not sustainable. We waste energy by having separate buildings even if you are in one lot, it is much energy consuming to heat it up.
7. **Digital and IT strategy – API First-approach, open systems, share all data, read and access all data. Multibrand approach behind the curtains, and toolboxes for dealers, not systems – Pontus Lovrup:** Today we have been faced with different systems, we have MyAUDI, where you can lock your car, turn up your heat, you can see your mileage, but then it's closed. We have also ELLI, they presented us their new charging system and it's closed. You cannot access the data you can't do anything. We cannot access the data of AUDI, we cannot access the data of any items. We cannot combine financial systems with sales systems, without of effort without a lot of programming. This has to end. An API first is the reason why we are pushing this so hard. They have to make the interfaces should be the first item in the program, so that it is accessible for us, for the importer, for the

customer, for the car and for the partners you would like to have in there. Sweden was shown the D!S and they think, that if we go to D!S, it would be a step backwards, because there were so much limitations what cars are included.

8. **Agency systems – if agency systems, TRUE agency = brand to carry all risks & investments. In most markets an agency system will be unnecessary and risky – Alvaro Curiel Sanz:** Most of the important points of this presentation. What VW wants to do now is a completely business change. It is not just fleet, they are trying to get the whole business. They are doing it country by country. The model that the VW group wants to go to is a NON Genuine agency in which the dealer assumes essential risks and investments. They want to take the control of the customers. A new system must meet three clear rules; If they are not fulfilled it makes no sense:
1st is that the proximity to the final customer is clearly increased, “gaining ground” to third parties
2nd is that a more profitable model for the brand & dealers
3rd is that it allows greater specialization, customer loyalty and adaptation of costs.
9. **VW FS – partner or large dealer? Define role, support for dealers, not competition. RV backbone – Ryszard Hada:** FS-AG is in the market and not really a partner, more a competitor sometimes for us. Is the FS-AG really a partner or a large dealer or a competitor. FS-AG is doing direct business with the fleets already. Residual values issues exist in some markets. They thinking of risking the dealers not themselves. They imposing low labour hour rates in some markets and there is a threat of new provision system in financing – we need clarification before launch. The EDC is asked what is the plan for it. VW FS is supposed to be the support for dealers, not competition. EDC needs to start direct discussions with VW FS based on the list of challenges, even if next year VW FS would stop sponsoring the EDC.
10. **Service agreements – fair for dealers, cost problems to be carried by brands (due to standards which set our cost level) – Ryszard Hada:** The terms are not fair in some markets. We need good terms. After Sales business must be profitable. Service agreements need to be fully agreed locally with local Dealer Councils – assuring fair profit for dealers and getting at least yearly updates. The EDC is kindly asked to communicate or re-agree this approach to VW AG / AUDI AG / Group Aftersales / VW FS.
11. **Oil – Oil business is a crucial part of transition towards electrification and must be free for dealers – Dorien Michels:** Oil could be a contract product. EDC members were asked to check this in their contracts.
12. **Direct sales/ 3rd party sales – VW Group should work through dealers, not externals who not contributed to our ecosystem – Alvaro Curiel Sanz:** IKEA, ZARA, some examples of companies which does not sell in AMAZON, it only sells through its network of stores. Why ?, because they have decided so. There is NO channel conflict. They are profitable, they have a strategy. Banks, insurance companies, leasing companies, third-party platforms, etc, are trying to replace us. If the manufacturer is always tempted by certain sales; if they fall in the temptation they will make the monster bigger and bigger, they will change the perception that we (the dealers) are not the channel in the client's mind and it will be very difficult to go back.

The internal meeting was concluded at 12:15 noon.



Dr. Matti Pörhö
Chairman of the Meeting and President

- end of the minutes (internal part) -

DAY 1 | November 07th, 2019 | STRATEGIC DIRECTION. Joint conference with representatives of manufacturers & NSCs/importers

Opening Statement EDC Dr. Matti Pörhö, President EDC

The President delivered his opening speech to the external audience and thanked the manufacturer representatives for coming and for their great support in organizing this conference. He also stressed the valuable cooperation in the working groups between manufacturers and EDC, in particular the role of the EDC as an important platform for constructive discussions between dealers and manufacturers.

Opening Statement and Welcome | Group Business Update

Dr. Christian Dahlheim, Volkswagen Group, Director Group Sales

See presentation

Volkswagen Passenger Cars | Strategic Direction & aspects of Future Sales Model

Jürgen Stackmann, Volkswagen AG, Member of the Board of Management

Dr. Stephan Kollenbach, Volkswagen AG, Head of International Retail Organization

See presentations

- We have intensively worked on a reduction of standards
- Going to align this among of all our brands
- Agency is a key simplification of our business
- Fleet agency business is already implemented in UK and Germany
- Expanding that in Europe
- We feel responsible for your business!

Q – Steffen Hahn: Do we already know something about the conversion rate developing?

A – Jürgen Stackmann: We have seen a net departure rate people have left the system of 7% since the start of the pre-booking, which is very low. Have done a pre-conversion test in Germany.

Q – Dirk Weddigen: We all dealers in Europe have a hundred thousands Euromobil staying around and we can rent them and we can do a stationary car sharing system, we can use our staying and sleeping metal around our buildings for our clients. Is there an idea that VW is thinking in the same range to use Euromobil as a really mobility solution?

A – Jürgen Stackmann: We are investing in WE-Share. There are profitable cities and awful cities. And we are trying to work with the awful cities. Not every city is a good sharing market. We are absolutely keen to get the dealers assets in this game. We need to leverage all of our assets into a total system. We are fully aligned with your vision to make sure that every dealer needs to be part of this total franchise to get mobility actually activated.

Q – Eric Cortois: We act as one is a really important message for us dealers! This morning we were talking about cost reduction and about 10% cost reduction we are waiting. For the moment we can't see anything. An important topic for us is the After Sales and the D!AS project. We won't that you reduce our margin for the moment because we don't have the cost reduction for the moment.

A – Jürgen Stackmann: Obviously I'm aware that we are not making good progress on RoS this year. The 1% reduction is not of all our business, it's only for retail. Because on fleet we are compensating fully on the fleet side. So in most markets the effect on RoS is 0,4%. And we have gone again through the books of standards reduction, process reduction, but we can't really identify the 0,4% this year. We will talk to the importer. We really ask you to challenge the local teams as much as us to see, can we really find synergies on the cost in the box. The plan is still to reduce the margin in many countries. I really encourage you to go with your importers through the potential to reduce costs, standards and process time wherever you can. We will go forward with our way forward. D!AS is actually on the way and is still different. We have to go on cost

reduction throughout our system. We don't have fought enough to get the costs out of our system. You're profitability is our future.

Q – Ryszard Hada: 1% margin reduction will kill all our dealers!

A – Jürgen Stackmann: Let's have a meeting and a look on the data, and see what we can reduce further, which I'm aware of.

Q – Alvaro Curiel Sanz: The reality is that we will have 1% less. We have to fight on leasing companies regarding private customers. These companies are using this margin to put offers in different platforms for private customers.

A – Jürgen Stackmann: This is in our hand, we can steer that. We are serving these leasing companies, so it's up to us what we do. We have to think in the system rather than effect. Let's sit together. We have to seek through our costs.

AUDI | Strategic Direction, Business Update Audi Europe

Hildegard Wortmann, Audi AG, Member of the Board of Management

Martin Sander, Audi AG, Vice President Sales Europe

Horst Hanschur, Audi AG, Senior Director Retail Business Development

See presentations

Volkswagen Commercial Vehicles| Ford Cooperation & Commercial Orientation

Heinz-Jürgen Löw, Volkswagen AG, Member of the Board of Management

See presentation

Volkswagen Group | After Sales Strategy

Dr. Christian Dahlheim, Volkswagen Group, Director Group Sales

Steffen Schwarz, Volkswagen Group After Sales

See presentations

End of 1st conference day

DAY 2 May 24th, 2019 | OPERATIVE DIRECTION

Opening of 2nd conference day

Dr. Matti Pörhö, European Dealer Council, President

Volkswagen Passenger Cars | Business Update VW PC Europe

Manfred Kantner, Volkswagen AG, Executive Director Sales Europe

Achim Schaible, Volkswagen AG, Head of Volkswagen After Sales

See presentation

Volkswagen Commercial Vehicles | Sales Update and Outlook

Dr. Jan Utermarck, Volkswagen AG, Executive Director Sales Europe / Fleet & Conversion

Guido Blankenheim; Volkswagen AG, Head of After Sales

See presentation

Volkswagen Financial Services AG | Status Update Europe

Martin Mehrgott, VW FS AG, Head of Region Europe East

See presentation

Questions & Answers Participants

Q – Finn Kjaergaard: What is the situation of a new factory in Turkey?

A – Dr. Dahlheim: There we have lower production costs vs. western standards. Currently the process is on hold and no decision has been taken. We have to watch at the political development.

Q – Alvaro Curiel Sanz: Has the AS-ID a high improvment?

A – Steffen Schwarz: All contents have not been connected by now. This is most for the improval of AUDI. The AS-ID is the most important thing and we will make it happen.

Q – Matti Pörhö: Our message to you is, that we can't go blind through bureaucracy and lawyers! We have to find solutions.

A – Steffen Schwarz: It will happen on the Group level and will be consolidated. We have a corporate opinion and one legal opinion.

Q – Ryszard Hada: Will the agency system also be for parts?

A – Dr. Dahlheim: We believe in fleet agency system all over Europe. The NORA agency will be less flexible.

Q – Ryszard Hada: What about the progress of oil business and genuine oil?

A – Dr. Dahlheim: We have global contracts and we want to maximize the revenue with that supplier (SHELL). We know the importance of the Oil business. This business should be attractive for you and us.

Conference Close Dr. Matti Pörhö, European Dealer Council, President

The 60th EDC Conference will take place on May 26th/27th, 2020 in Stockholm/Sweden.

Isernhagen, November 13th, 2019



Martin Kuhn
Managing Director